

Message Text

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PAGE 01 LONDON 05570 091658Z

14

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0655

C O N F I D E N T I A L LONDON 05570

E.O. 11652: GDS

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: NEW EXPLORATION POWERS FOR
BRITISH NATIONAL OIL CORP.

1. DURING LAST WEEK OF MARCH AN AMENDMENT TO PETROLEUM (PRODUCTION) REGULATIONS WAS PASSED BY PARLIAMENT ALLOWING BRITISH NATIONAL OIL CORP. (BNOC) OR BRITISH GAS CORP. (BGC) TO APPLY FOR OFFSHORE LICENSES AS SOLE LICENSEE WITHOUT PRIOR PUBLIC INVITATION AND WITHOUT REGARD TO OFFICIAL LICENSING ROUNDS. MINISTER FOR ENERGY JOHN SMITH EXPLAINED IN REPLY TO PARLIAMENTARY QUESTION THAT PROVISION IS ESSENTIAL TO GIVE FLEXIBILITY TO DEVELOPMENT OF BNOC AS A STATE OIL CORPORATION AND WOULD ALLOW BNOC TO EXPLORE BLOCKS WITHOUT NECESSARILY DEVELOPING THEM IF GOVERNMENT SO CHOOSES. REFERRING TO DEBATES AT TIME OF PETROLEUM AND SUBMARINE PIPELINE BILL, SMITH NOTED THAT AS STATE CORPORATION ACTING AS A SOLE LICENSEE IN THE NATIONAL INTEREST, BNOC COULD NOT BE EXPECTED TO OPERATE ON PRECISELY SAME BASIS AS WHEN IN PARTNERSHIP OR COMPETITION WITH COMMERCIAL COMPANIES. SMITH NOTED SECSTATE FOR ENERGY HAS NO PLANS AT PRESENT THAT IS PRIOR TO 5TH LICENSING ROUND EXPECTED THIS SUMMER, TO AWARD NEW LICENSES TO BNOC.

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PAGE 02 LONDON 05570 091658Z

2. UNDER NEW REGULATIONS IT ALSO WILL BE POSSIBLE TO SUBSTITUTE OR REPLACE LICENSES FOR REASONS CONNECTED WITH FINANCING OF OIL FIELD DEVELOPMENT. IN FACT, SPECIFIC PROBLEM WITH RESPECT TO FINANCING OF CLAREMORE FIELD WAS SAID TO BE PROXIMATE CAUSE OF ISSUANCE OF NEW REGULATIONS.

3. INDUSTRY REACTION HAS BEEN ONE OF SURPRISE AND SHARP DISAPPOINTMENT THAT GOVT WOULD ISSUE SUCH REGULATION WITHOUT PRIOR CONSULTATION. BOTH UK OFFSHORE OPERATORS ASSOCIATION (UKOOA) AND INDIVIDUAL COMPANIES HAVE COMPLAINED ALONG THESE LINES TO SENIOR CIVIL SERVANT LEVEL OF DEPT OF ENERGY. THEY ALSO HAVE REGISTERED OBJECTION TO SUBSTANCE OF NEW REGULATION NOTING PRIOR ASSURANCES GIVEN AT TIME PETROLEUM AND SUBMARINE PIPELINES BILL UNDER CONSIDERATION THAT EXTENT TO WHICH BNOC DOES NOT ACT COMMERCIALY WOULD BE CONFINED TO BLOCKS PRIVATE COMPANIES DO NOT WANT TO EXPLORE BECAUSE THEY WERE NOT OF SUFFICIENT ECONOMIC AS OPPOSED TO NATIONAL INTEREST.

4. EMBASSY UNDERSTANDS "EVERGREEN RIGHT" TO EXPLORE AFFORDED BNOC AND BGC CAME AS A SURPRISE TO NUMBER OF RESPONSIBLE CIVIL SERVANTS. REPORTEDLY DECISION TO TABLE AMENDING LEGISLATION WAS TAKEN BY MINISTER FOR ENERGY JOHN SMITH IN CONSULTATION WITH SECSTATE BENN AND POSSIBLY LORD KEARTON OF BNOC. CIVIL SERVANTS HAVE APOLOGIZED PRIVATELY TO UKOOA OFFICIALS, RECOGNIZING PRIOR CONSULTATION WITH INDUSTRY WOULD HAVE BEEN IN ORDER.

5. MANY OIL INDUSTRY REPRESENTATIVES ARE CONCERNED THAT UNDER NEW POWERS BNOC COULD BE UNFAIRLY GIVEN DESIRABLE BLOCKS BETWEEN OFFICIAL LICENSING ROUNDS ADJACENT TO NEWLY DISCOVERED FINDS MADE BY PRIVATE FIRMS. GULF (AND CONOCO POSSIBLY) SEEM RELAXED HOWEVER INASMUCH AS THEY EXPECT TO BE GIVEN AMPLE OPPORTUNITY TO TAKE UP PART OF LICENSES WHICH BNOC MAY RECEIVE IN MOST INTERESTING SECTORS OF NORTH SEA.

6. ON SUBJECT OF 5TH LICENSING ROUND ITSELF, HOWEVER, CONFIDENTIAL

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PAGE 03 LONDON 05570 091658Z

BOTH SMITH AND BENN HAVE ASSURED UKOOA THERE WILL BE PRIOR CONSULTATIONS WITH INDUSTRY. SINCE CURRENT PLANS CALL FOR OPENING ROUND IN JUNE-JULY, CONSULTATION PROCESS SHOULD BEGIN SOON.

ARMSTRONG

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